I. GENERAL DEVELOPMENTS

1. The Middle East peace process has continued to strongly influence the domestic political agenda. In the absence of any progress on the Lebanese track, complete and comprehensive political stabilization cannot be achieved. The situation in and along the Israeli controlled southernmost region of the country has remained subject to recurring incidents that compromise the development of the local economic potential of southern Lebanon. During the first quarter of 1995, there has been a new element, as fishermen stationed in ports of southern Lebanon, in particular in Tyr, have been banned from carrying out any fishing activity for several weeks. The presence of 330,000 Palestinian refugees, about half of whom live in 12 official refugee camps, remains a sensitive subject; they are denied civil rights, including the right to work. Lebanon, along with the Syrian Arab Republic, opted, conditionally, not to participate in the multilateral talks on Middle East cooperation until such time as significant progress was achieved in the Middle East talks.

2. Within the framework of the strategic cooperation agreement between Lebanon and the Syrian Arab Republic, there have been more sectoral agreements signed, and others are being put into operation, as a result of the work of joint committees and working groups. Lebanese officials and private sector leaders believe there is an important scope for economic cooperation between the two countries, which is considered to be an introduction to wider regional economic cooperation, an idea that is strongly supported.

3. In early December, there was a brief crisis at the head of Government, which disturbed confidence and left some uncertainty with respect to the short-term political outlook. Moreover, in the past few months, there has been uneasiness about an array of political, economic and social problems that have accumulated and deepened. The run-up to the presidential election, to be held in 1995, also adds to the uncertainty. This situation has affected the outlook of the economy as of the first quarter of 1995.

II. ECONOMIC DEVELOPMENTS

4. Initial estimates of economic performance in 1994 indicate a further healthy growth of the economy, as the gross domestic product (GDP) rose by an estimated 8.5 per cent compared to 7.7 per cent in 1993 and 5 per cent in 1992 (the composite indicator of economic activity produced by the Central Bank indicates moderate growth - 9.4 points - in 1994 compared to very strong growth - 33.2 points - in 1993). This performance was achieved in an environment of weak capital investments, moderate inflation (12.5 per cent in Lebanese pounds), significant public deficit (55 to 57 per cent) and high long-term interest rates. Tight monetary policy contracted private demand and led to further stability of the domestic currency, which appreciated by 3.8 per cent to the United States dollar. The precarious situation of the public finances continues to restrain the Government in its investment policy.

5. The improvement of public finances is a first priority as prevailing deficits are increasingly affecting the performance of the economy by draining

the level of national savings, causing an increase in interest rates and impeding private sector investment. Tight monetary policy should be developed into a policy that will aim at financing the needs of the economy, while maintaining price stability so as to progressively reduce the risk premium on the Lebanese pound and justify a gradual decrease in long-term rates. The favourable economic situation of recovery, more contained inflation and a significant balance-of-payments surplus enables the introduction of additional reforms necessary for regaining the confidence of investors and bending the deficit of public finances. This would provide a strong basis for faster growth in the coming years without upsetting recovery as a result of inflation and rising public debt.

6. The good performance of the economy in the past two years should not conceal certain problems in the private and public sectors. There continues to be stagnation in the productive sectors or at best there is slack recovery, and they are a long way from reaching their full potential. There is also some concern about the adequate utilization of available credit. In the public sector, there is concern about the capacity of the sector and about the need for administrative reform. A process is in motion that is expected to lead to privatization in the medium term. The social situation in the country also continues to be difficult. Improvement in the purchasing power of labourers depends on an increase in productivity, which, for its part, requires increased investment. The latter depends on the availability of basic physical infrastructure and services, which will be achieved through the rehabilitation programme. Meanwhile, the high cost of living limits access of the poorer segment of the population - estimated at up to 50 per cent of the total population - to basic health and education services.

7. The 1995 budget of LL 6,274 billion (US$ 3.8 billion) aims at safeguarding monetary and economic stability and comprises increased spending on social affairs without resorting to raising taxes and fees. Of the planned expenditures, LL 1,442 billion are for investment and development and LL 4,832 billion are operational expenditures. Of the total, LL 1,610 billion (US$ 979 million) are for servicing the country's debt. Parliament expressed concern about the proposed 44 per cent planned budget deficit and the Government's ability to hold to the projection.

8. The place of Lebanon on the emerging regional financial market is viewed with optimism. There have been intensive efforts to develop the market framework and the legal and regulatory basis for market operations and products. Special importance is being given to the establishment of a higher authority for market surveillance and to the reactivation of the Beirut stock market.

III. RECONSTRUCTION

9. The groundwork for the recovery programme, the 10-year plan (1993-2002) for reconstruction and development, was laid out in the National Emergency Recovery Programme adopted by the Government in 1992. The Programme emphasized emergency rehabilitation of war-damaged infrastructure and facilities over a three-year period (1993-1995). The 10-year plan has an expanded scope and horizon. It was established within a macroeconomic framework designed to double the country's

real per capita income in 10 years. The recovery plan, which was developed by the Council for Development and Reconstruction (CDR) in cooperation and consultation with line ministries and public and private sector organizations, covers the entire range of physical and social public infrastructure throughout Lebanon, as well as institutional strengthening. It covers 19 sectors and project components of various types, such as technical assistance, master planning, economic and engineering studies, engineering works and procurement of equipment. Projects have generally developed over a long period of time and are therefore well thought out and integrated within long-term strategies. The 10-year plan is under discussion in Parliament, following the decision of the Government to allocate funds to different sectors through long-term development budgets. The plan was transmitted to Parliament in the form of 20 draft law-programmes, amounting to US$ 11.4 billion, which will provide the opportunity for wide-ranging discussion by interested parties on priorities and specific projects.

10. During the period under review, there has been substantial progress in the rehabilitation work of the initial priority sectors - electricity, water, waste water and education. At the end of 1994, CDR had either completed or ongoing contracts valued at US$ 1.9 billion, and a total of 470 consultancy, construction and supply contracts in operation. It is noteworthy that, in early January 1995, a major contract was signed with a foreign consortium, in the amount of US$ 536 million, to build two dual-cycle power plants, with a total capacity of 870 MW. CDR has also put in place major construction contracts for the development of Beirut International Airport, the infrastructure of Beirut Central District and the Sports City. On 18 November 1994, a four-year contract was signed for US$ 63.7 million to construct the basic infrastructure and public services of the City Centre (roads, tunnels, bridges, traffic-lights and street lights, drains, sewerage, power and telecommunications networks, public squares, gardens, parks and telephone booths). Work is progressing well in the preparation of the next phase of construction contracts in the priority sectors. Preliminary estimates indicate that investment expenditures of CDR amounted to roughly US$ 300 million and the rest of public administration to approximately US$ 350 million in 1994.

11. The first phases of the rehabilitation work in the priority sectors are generally progressing according to plan, and completion is envisaged between mid- and end-1995. It is noted that some instances of delay have arisen because of unexpected conditions, notably as a result of increased scope or scale of repairs identified when dismantling or carrying out exploratory works; this has involved additional cost and sometimes led to an extension of the contract period. It is normal that problems are encountered; the important consideration is that problems are being tackled and ironed out when they occur. Notwithstanding the markedly expanded and improved capacity of CDR, the weakness of the line ministries and autonomous agencies affects the progress of the reconstruction process. In view of both the diversity of small-scale operations and the complexity of others, the monitoring and control of reconstruction activities at the central and project levels may need increased attention.

12. Whereas the general pace of reconstruction has accelerated in the key sectors, much remains to be done, particularly in the key area of institutional rehabilitation and in the social sectors. Indeed, with respect to the latter,

progress cannot be measured only in terms of contracts awarded for physical reconstruction. A review of the overall government policy and priorities of reconstruction in terms of a better balance as well as a change in the pace of reconstruction in these sectors may be considered. To the extent that additional resources become available, the United Nations system is well placed to contribute towards meeting these needs.

13. Financing of projects within the plan is a major consideration and involves a mix of external funding, private sector funding (both local and foreign) and government funding. The main guidelines of the funding strategy adopted by CDR are non-recourse to deficit financing and ensuring that private sector recovery is not jeopardized. It is thus important that the right mix of financing be mobilized and allocated to the right type of projects. To secure further international financing is a cornerstone of the funding strategy of the Government. In this respect, the Government was successful in raising US$ 400 million in Eurobonds in October 1994, reflecting the confidence of the international financial community in the country's economic recovery programme; the proceeds will be used to finance road infrastructure projects and projects in the housing sector. It is also noted that build-operate-transfer (BOT) schemes are used to fund specific investment projects without having recourse to government finance. The Global System for Mobile Communications (GSM) mobile telephone network has been implemented in this manner, as concessions were let to two competing operators in August 1994. The toll highway from Beirut to Masna' (Syrian border) and the Beirut Conference Centre will also be implemented under such a scheme.

14. At the end of 1994, CDR had secured funding from international sources of about US$ 2 billion, with expressions of interest for an additional US$ 800 million. Total available external financing - US$ 1,979 million - comprises US$ 1,582 million in loans and US$ 397 million in grants; the latter represents 20 per cent of available external financing. Of the total loans, 33.6 per cent are soft loans, 12.3 per cent export credits and 34 per cent commercial loans. Compared to the end of May 1994 (US$ 1,633 million), available external financing increased by 21 per cent at the end of 1994. The main donor sources are the European Union/European Investment Bank, Italy, the World Bank, the Saudi Fund for Development, the Islamic Development Bank, the Arab Fund for Economic and Social Development and the Kuwait Fund for Arab Economic Development. The main donor sources for grant funding are Saudi Arabia, the European Union, Italy, Kuwait and United Nations system (excluding the World Bank). This achievement clearly shows increasing confidence in the ability to successfully implement the recovery plan and the longer-term future development potential of the country. CDR, in cooperation with the monetary and financial authorities, carefully monitors fiscal and debt indicators. It is an important objective and a continuing concern that an appropriate balance be maintained between the pace of development and fiscal requirements, with a view to continuing to honour commitments to counterpart funding and to reimbursement of external loans.

IV. UNITED NATIONS PRESENCE

15. Following the recommendation of the Secretary-General and endorsement by the General Assembly, the Office of the Coordinator of United Nations Assistance for Reconstruction and Development of Lebanon (UNARDOL) was terminated on 31 March 1995. The role and functions of UNARDOL were transferred to the United Nations Resident Coordinator, United Nations Development Programme (UNDP).

V. UNITED NATIONS ROLE AND ACTIVITIES

16. The United Nations system has continued to support national objectives and programmes for the reconstruction and development of Lebanon under the leadership and direction of the UNARDOL Coordinator. The United Nations Coordination Committee continued to meet on a regular basis to review the progress of work, to discuss key issues and how best to respond to them, to promote cooperative action among the organizations of the United Nations system and to consider security and administrative issues of common concern. The UNARDOL Coordinator, with the support of the United Nations Coordination Committee, has provided advisory assistance to the Government on a number of key issues and themes, including institutional renewal, social development and environment. Activities of various inter-agency working groups and task forces continued under the initiative of different lead agencies. Their resourcefulness and capacity determine their effective response to government needs through collaborative action. The limited capacity of several United Nations organizations in Lebanon constrains the operational efficiency of such arrangements. It is one indication, among others, underscoring the importance for the United Nations system to focus on a limited number of areas and to join efforts, in view of limited resources. The importance and urgency of adopting the country strategy note and making wider use of the programme approach are revealed.

17. Preliminary data on external assistance for development cooperation (excluding financing on commercial terms), indicate disbursements by the United Nations system amounting to US$ 16 million in 1994, compared to US$ 14.4 million in 1993 and US$ 6.4 million in 1992. Of the total disbursements made by the United Nations system, US$ 4.1 million were made by UNDP (compared to US$ 2.7 million in 1993) and US$ 3.3 million by the World Food Programme (WFP) (compared to US$ 2.3 million in 1993). The totality of this assistance was on grant terms and more than two thirds was for technical assistance. It is important to note that the major expansion of UNDP activities in terms of commitments and subsequent disbursements was possible in the past years because of accumulated indicative planning figure (IPF) resources from two previous cycles; given the magnitude of the need for technical assistance and the expectations of the Government from UNDP in this respect, careful consideration is required on how to maintain the volume and pace of UNDP programme activities throughout the next cycle. The United Nations system is a major provider of external assistance and the major source of technical assistance. In view of the magnitude of the needs for capacity-building and other technical assistance, the Government has repeatedly stressed the need for increased allocation of resources by the United Nations system and argued for special support in this

respect. Likewise, the Government has expressed concern about the dispersion of resources among organizations and a large number of projects.

A. Information sharing

18. The updating and expansion of the databases on economic assistance and on non-governmental organizations and the monitoring of general and economic developments, reconstruction and economic assistance have enabled the regular dissemination of information to the United Nations system, Governments and other development partners. The databases are accessed and information retrieved on a regular basis by different categories of users. The annual Development Cooperation Report for 1993 was published in September 1994, and is increasingly perceived as a valuable source of information. The publication of a bimonthly United Nations newsletter was initiated by UNARDOL, in cooperation with the United Nations Information Centre, early in 1995.

B. Support

19. Within the context of sustainable human development, UNDP, in cooperation with UNARDOL, has implemented a major programme relating to the key issues of the World Summit for Social Development and to women in development within the context of the forthcoming World Conference on Women. These activities were targeted at non-governmental organizations and civil society, and the public at large, in order to increase their awareness and commitment and promote their involvement in preparatory activities, on the one hand, and at mobilizing and training the media, on the other. The United Nations Children's Fund (UNICEF) has also undertaken intensive efforts in support of children's rights and related issues, and has successfully involved policy makers, Parliament and civil society. Institutional arrangements have been made to monitor the implementation of international instruments relating to women and children. In addition, there has been support from UNDP and the specialized agencies with respect to environmental issues and popular participation, in particular the involvement of non-governmental organizations, in development.

C. Operational activities for development

20. In addition to development cooperation among the United Nations system, the period under review has been characterized by an increased momentum of the activities of the development funds and banks. The World Bank is currently operating a normal lending programme and is favourably considering expansion of its lending activities, supported by an increasing number of interventions financed from institutional development funds (IDF) grants. Three loan agreements were concluded, concerning (i) irrigation rehabilitation and modernization, US$ 57.2 million (for rehabilitation of six irrigation zones and 30 small-scale irrigation systems, and for institutional strengthening of the Ministries of Hydraulic Resources and Agriculture); (ii) rehabilitation of the health sector, US$ 35.7 million (for institutional strengthening of the Ministry of Health, rehabilitation of public hospitals, rehabilitation and construction of health centres, and supply of medical equipment); and (iii) technical

assistance to the Ministry of Finance, US$ 19.94 million (for revenue enhancement and fiscal management). In addition, the World Bank has provided a number of IDF grants for administrative reform, poverty alleviation, the environment etc. The environment grant was used to prepare a study on the environment and to develop a national environmental strategy (US$ 330,000 from the Mediterranean Technical Assistance Programme (METAP)). The International Fund for Agricultural Development (IFAD) contracted a new loan of SDR 6.7 million (US$ 9.8 million), to complement the above-mentioned World Bank loan, for on-farm irrigation development (assistance to farming families to improve their income, provision of funding to women in rural areas through non-governmental organizations, and strengthening Ministry of Agriculture services).

21. Operational activities for development have progressed well and expanded further during the period under review. As indicated above, there has been a significant increase in UNDP activities. In addition, UNICEF is continuing to implement its programme of cooperation, and the United Nations Population Fund (UNFPA) is fully engaged in an ad hoc programme costing nearly US$ 2 million. The most important project activity in this respect concerns the implementation of a population and housing database, which will provide essential statistics for planning and policy-making.

22. UNDP activities are built around four key areas, the first one being institutional rehabilitation and renewal. Policy advice and upstream support have been provided, particularly with respect to the approach to administrative reform and the key issues obstructing the smooth functioning of public administration. A technical cooperation management project for institutional development was initiated and a project document was signed to establish an institutional development unit (costing US$ 1 million, of which US$ 0.5 million came from IPF resources). Another project document was signed to rehabilitate the Ministry of Finance, in terms of fiscal policy adjustment (costing US$ 3 million, of which US$ 1.6 million came from IPF resources), to complement and implement the above-mentioned World Bank loan. Associated in the implementation of the latter project, in addition to UNDP, are the International Monetary Fund (IMF), the World Bank and the United Nations Conference on Trade and Development.

23. With respect to social reconstruction, the project for the return and socio-economic rehabilitation of displaced persons, initiated in the second quarter of 1994, provides support to programme management and control and focuses on the promotion of income generation and community development; the establishment of a monitoring and control system for housing repair and reconstruction through grant funding was completed and handed over. High-level policy advice and technical support to the High Relief Committee towards the preparation of a community development fund were continued and a project document to provide management support for operating the fund was completed; the fund would benefit rural communities in outlying areas. Project documents were also signed to implement a labour force and manpower survey and for the development of employment offices (US$ 0.5 million) and a forums-for-peace project (US$ 0.2 million).

24. With respect to balanced economic development, the integrated area development project for Baalbeck and Hermel, initiated in the first quarter of 1994, aims at achieving income-replacement for eradicated illicit crops and income-generating opportunities outside agriculture, and promoting the development of physical and social services infrastructure and access to social services. Achievements during the period under review include establishing the project management unit and securing the commitment of the local population, by organizing more than 20 village development committees, procuring and distributing or installing emergency assistance equipment, setting up and initiating a rural credit system, and starting problem-solving extension work. To promote the objective of economic diversification, two project documents were prepared and signed, namely, the tourism master plan (US$ 708,000, of which US$ 300,000 came from IPF resources) and the establishment of a trade information centre (US$ 0.5 million, of which US$ 0.25 million came from IPF resources).

25. With respect to the last area of concentration - environment - considerable efforts were made in terms of high-level policy advice and preparation and initiation of project activities. Policy advice concerned pollution in general and hazardous and toxic waste, in particular. Project activities included the preparation of a capacity-building project, which was signed in July 1994 (US$ 610,000), to support the Ministry of Environment to introduce environmental impact studies and undertake related training, establish an environmental monitoring system and provide environmental information; a related project on establishing an environmental management information system was prepared early in 1995, and a national environmental strategy is being completed, as indicated above, with a US$ 400,000 grant from METAP. A project proposal to establish protected areas and promote biodiversity has been completed and will be considered for approval by the Global Environment Facility later this year (US$ 3 million). It is noted that a coastal zone management programme, with World Bank financing, is in preparation. The first phase consists of diagnosing the problems affecting the coastal zone. In the second phase, identification of priority areas for action will be completed.

26. The UNARDOL Coordinator, in close cooperation with the United Nations Coordination Committee and the Council for Development and Reconstruction, has undertaken preparations for the convening of a national workshop on United Nations system collaboration with the Government of Lebanon, within the framework of the preparation of the country strategy note. The workshop is to be held in Chtaura, Lebanon, between 2 and 5 May. It is noted that UNDP and UNICEF plan to hold medium-term reviews of their respective country programmes around mid-1995. UNDP has undertaken substantial preparatory activities towards this end. UNICEF has undertaken the preparation of a draft position paper with a view to formulating the next programme strategy.

D. Resource mobilization

27. The UNARDOL Coordinator has continued his efforts to sensitize donors and mobilize resources for reconstruction and development, in particular for humanitarian and technical assistance. It is noted in this respect that good working relations have been developed with the World Bank, as is evident from

the collaborative arrangements in support of a number of key programmes and projects (e.g., finance, community development/poverty alleviation and institutional development). In this connection, UNARDOL has convened on a regular basis the local Donor Coordination Committee to review programmes of cooperation, to review key issues and related priority needs and to explore possibilities for cooperative action and financial support.

28. Inasmuch as the mobilization of resources from bilateral donors through the United Nations system has proved difficult, mainly because of changed priorities in the region, there has been success in mobilizing government cost-sharing for a considerable number of activities, amounting to a significant proportion of total available programme resources. The adoption of the programme approach is expected to open up new avenues for programme cost-sharing.

29. During the period under review, there have been continued efforts by the UNARDOL Coordinator to mobilize resources for improving the situation of the local population in southern Lebanon by meeting some of their basic needs and to support the rehabilitation of local government and the reactivation and development of local economic potential. As peace may be achieved in the not too distant future, it is of great importance for the United Nations to support the Government in meeting the challenge of moving smoothly towards the peace-development continuum. The Government has repeatedly requested increased support in this respect. The UNARDOL Coordinator has continued his efforts to mobilize resources for a priority programme.

30. Another area in need of urgent financial support concerns the programme of income replacement, economic diversification and social rehabilitation in areas earlier being used for illicit crops in the Baalbeck-Hermel region. Sustained financial and technical support in terms of economic and social investment, including credit programmes, is essential to lift the region out of poverty and underdevelopment and to draw it into the mainstream of development. Limited donor support has been provided, but it is largely insufficient to be able to envisage the permanent eradication of illicit crops and the start of a sustainable development process.

31. A further area in need of financial support concerns poverty alleviation, including activities concerning the economic rehabilitation of returning displaced persons.

32. A final area for increased support by the international community and the United Nations system concerns capacity-building of public institutions. UNDP has identified large-scale needs for priority assistance to reactivate and rehabilitate these institutions. The sustainability of the reconstruction efforts will, to a large extent, depend on meeting these requirements.

VI. CONCLUSION

33. The very satisfactory economic performance and the progress and acceleration of reconstruction, particularly in terms of the first phase of the rehabilitation of the public services infrastructure, are significant achievements of the Government. As reconstruction and development move into

higher gear, it is important to take note of emerging strains with respect to the capacity of public institutions and the sustainability of reconstruction; environmental concerns; and social issues, including human resources development and labour market development. In each one of these areas, the United Nations system is well placed to support the Government in meeting the large-scale, varying needs, subject to the availability of adequate financial resources.

34. The role and functioning of the United Nations system during the recent period has been smooth and satisfactory, witnessing considerable strengthening of capacity to respond with humanitarian assistance and operational activities for development to the ever-increasing needs. With the support of the United Nations Coordination Committee, the Office of the UNARDOL Coordinator has continued to play a pivotal and catalytic role in support of government objectives and programmes, and has facilitated United Nations system action through collaborative arrangements towards the objectives of economic recovery and reconstruction and development of Lebanon. The UNARDOL Coordinator has also continued to play an important role, with the support of the United Nations Coordination Committee, in providing policy advice on strategic and key issues and in positioning the United Nations system with respect to providing economic assistance.

35. To continue to meet expectations and needs satisfactorily, the United Nations system is called upon to increasingly focus its activities on a limited number of core areas; to adopt a programme approach for the implementation of operational activities for development; to ensure collaborative arrangements and joint planning and implementation of activities; and to undertake high-profile efforts in support of priority international themes. The above cannot be achieved unless more resources are made available by or to the United Nations system, namely, for capacity-building of public institutions, urgent rehabilitation of southern Lebanon, integrated area development of Baalbeck-Hermel and social reconstruction programmes. The continued role and function of the United Nations Resident Coordinator in this respect are strongly emphasized.